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It's time to reassess the link between income and work, according to John Mathews

Rethinking the safety net

It's now over a decade since the Poverty Inquiry recommended a 'guaranteed minimum income' scheme to replace the present system of welfare payments. The proposal languished as economic conditions worsened. In the straitened 1980s, is the GMI a utopian dream or a practical response to critics of welfare? John Mathews puts the case for a GMI.

AUSTRALIA'S SOCIAL WELFARE system offers an easy target to its critics. It's a fragmented, often inconsistent and sometimes illogical safety net made up of welfare payments, concessions and tax rebates. Nevertheless, our social welfare system is the sum total of a long series of humane reforms. The resurgent New Right seems determined to reverse that progress.

For supporters of the principles that underlie the welfare state, there are two ways to respond to this threat. One is to defend the status quo, on the grounds of equity and social justice. This has its dangers, not the least of which is the risk — with the system dominated by means tests and eligibility criteria — of a prolonged and pointless debate over who are the 'most deserving' of social welfare recipients in a time of budgetary restraint. As Adam Farrar

showed recently (AS, September 1986) this strategy is vulnerable to a media campaign whipping up hysteria over 'dole bludgers' and other cases of welfare fraud. In my view, this response will allow the very core of the social welfare system to be whittled away, because the debate will focus on eligibility rather than on the need for a system of social welfare and security as a means of promoting social cohesiveness.

The other possible response is a bold move to save the social welfare system by throwing the whole of it into debate, and placing social cohesiveness at the top of the agenda. This bypasses the arguments of the New Right by making a society-wide scheme of income security a national goal: in other words, by bringing a guaranteed minimum income (GMI) scheme onto the political agenda.

There have been many proposals to introduce GMI, and there is no doubt about the feasibility of such a scheme. But what has been lacking in previous discussions is a hard-headed look at the political reality of introducing it — who gains, who loses, and how a coalition of support could be brought together and maintained.

The essence of a GMI is to cut the existing tie between work and income. This link has already been partially dismantled through the various social security pensions and benefits paid to individuals and families. But the move has not been made to a universal GMI for all adult citizens. A GMI would not displace employment as the chief source of income for most people, but it would underpin employment income in a way that brings society together rather than dividing it into the employed and those on some kind of welfare. The New Right is explicitly attempting to exacerbate this division.

ONE VERSION OF A GMI SCHEME would provide every individual in Australia aged 18 or over with a guaranteed income of \$100 per week, a quarter of current average weekly earnings. This would cost a total per year of \$51.5 billion. A further children's allowance of, say, \$1000 per child per year (in practice it should be graduated), paid to the mother or guardian, would add another \$4.25 billion — making a total national dividend of \$55.75 billion. This could be raised in its entirety by a 50 per cent consumption tax on all goods

and services, excluding housing. The government would be saved a total of \$16.4 billion in current welfare payments (aged pensions, unemployment benefits, family allowances, FIS, and student allowances) plus savings in administration. Those savings, when set against the current income tax take of \$30 billion, would allow income taxes to be *cut overall by half*. The scheme could be phased in over, say, a five-year period, with the payments increasing by 10 per cent a year as the consumption tax is phased in at the same rate.

A variant of this would have employers deducting the value of the GMI from the pay packets of those in employment, either in full or pro-rata if part-time, in the same way that income taxes are deducted through PAYE, and returning this amount to the federal government. This would allow the consumption tax to be set at a much lower level of 25 per cent, with income taxes again halved.

A second version, which has been more widely canvassed, directly links the GMI with the income tax system, and leaves out a consumption tax altogether. Either every individual could be credited with a GMI and then income beyond that taxed in a proportional manner (as recommended by the 1975 Henderson Commission of Inquiry into Poverty), or tax be levied in such a way that every individual is left with at least the minimum income, and if they have less then they are credited with a transfer payment. This system is generally known as a negative income tax.

There are five major issues involved in introducing these schemes.

- Under both versions, employment would continue to be the major source of income, and unions would still be involved in negotiations with employers over wages and working conditions. But the whip of unemployment would lose some of its sting if all employees received a GMI automatically credited to an account each week independently of their employment. More flexible work systems would be encouraged, with part-time work becoming a much more attractive option for both male and female workers.

Some proponents of a GMI clearly see it as a means of introducing a more flexible labour market, and perhaps eliminating

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unions altogether. For example, in a National Dividend Scheme proposed in the UK by Keith Roberts, which is very close to the first version sketched above, the author suggests that wages will no longer have to reflect 'subsistence' needs, and workers would move in and out of jobs without bothering employers with such fussy matters as redundancy payments or workers compensation insurance. He is silent on the question of trade unions, because he clearly sees no future role for them.

This scenario may suit Roberts, but it could only come about if the unions rolled over on their backs and let it happen, and this of course they will not do. It would mean a change in the character of unions: they would become more concerned with the quality of the work experience, and not just with the quantity of remuneration.

- Although a GMI would result in a large flow of money through the government system, relative prices would not be disturbed after the initial inflationary effect of the consumption tax had worked its way through. Relative incomes would certainly be changed, with significant redistribution from the better off to the poorer.

The key question would concern the overall disposable income of workers' families where the main earner (usually the male) is on average weekly earnings, and the partner doing perhaps part-time work. Under these circumstances each individual would receive the GMI of \$5000 per year separately (resulting in increased economic independence for a married woman not in paid employment), giving \$10 000 for a family unit.

There would be less to pay in income taxes, but the recipients would pay half their consumption expenditure as an extra tax. Detailed dynamic models are needed to simulate this and other situations, to fine-tune the GMI scheme so that households on average weekly earnings come out ahead. The figures given above (and in the box) are for an overall and static situation, and give only an outline of the possibilities.

- Although the literature on GMI generally links it with income tax, there are very good reasons for financing the whole scheme by a completely new and clearly identifiable 'GMI tax', or mix of taxes. Because Australia has an overall low level of taxation compared with OECD countries, and few consumption taxes other than some wholesale sales taxes, it is in a good position to introduce a 50 per cent consumption tax as the single means of financing the scheme.

The usual arguments against a consumption tax, namely that it is regressive and hurts the poor more than the rich (as pushed very hard by the ACTU during the 1984 taxation debate), are neutralised if the tax is introduced along with a strongly redistributive GMI scheme so that, low-income families are not disadvantaged.

It could also be argued that the current income tax levels should be maintained overall, reducing the amount that needs to be collected by the consumption tax. This has the effect of consolidating the GMI into other items of government expenditure. The move would be undesirable, for it too would come under great pressure at a time of 'budgetary restraint'. The GMI is such a radical departure that it is best treated separately in the budget.

The GMI could be paid by crediting accounts that individuals would open with, say, the Commonwealth Savings Bank. There would be no compulsion to open an account, but it would be the easiest way for individuals to claim their payment. The current stigma that accompanies the queuing for unemployment benefits and other pensions would become a thing of the past.

The GMI/consumption tax system should be administered by a single federal government department, probably DSS. Cabinet would maintain control over the level of the GMI and its associated tax, for this would be an important control lever of macroeconomic policy. But there would be an opportunity to establish a GMI Advisory Council bringing together representatives of unions, employers and the major social groups. Staff levels of the DSS would probably decline with the simplification of the benefits system. This would be something that the public service unions, APSA and ACOA, would have to ride with.

- The GMI clearly has implications for political parties and elections. The GMI scheme discussed here, though perfectly feasible and capable in theory of being introduced tomorrow, would obviously be too radical for any government to attempt to introduce without an electoral mandate.

The schemes as outlined fit in well with the social democratic outlook of the ALP and with the liberal-conservative outlook of the coalition parties. But they would not be acceptable to the New Right (despite Milton Friedman's advocacy of a negative income tax as a means of introducing smaller government and, he hopes, eliminating trade unions). Hence there could be a line-up at the next but one federal elections, say in 1990, with the ALP committed to a GMI, and the coalition parties opposed. Presented in the right way though, with the redistributive benefits promoted by the party, and with the system tuned so as not to disadvantage average wage earners (and promoted by the unions to their members), the GMI could create an unbeatable electoral coalition.

- Constitutional issues are a final major issue. The power of the federal government to do much that is new is extremely limited by the constitution. It will be recalled that the efforts of the Chifley government in 1949 to nationalise the banks were struck down by the high court as unconstitutional. Hence the introduction of a GMI scheme financed by a new tax could be expected to run into trouble. Lawyer Chris Arup has reviewed this question, and concluded in the *Federal*

Law Review that 'a GMI scheme would be supported in its funding by the taxation power, and in its payments by a broad view of the classes and the means of provision to them encompassed by sections 51 (xxiii) and 51 (xxiiiA)'. He warns that 'the alternatives — constitutional amendment, reference by the states of powers to the commonwealth, and provision through the states by tied grants — do not seem practicable.'

WITH ALL THE UPHEAVAL IT involves, a GMI scheme must be seen to have considerable advantages over the status quo. Indeed, with the assault by the New Right on welfare, it represents the best means of implementing a humane social system of mutual financial obligations.

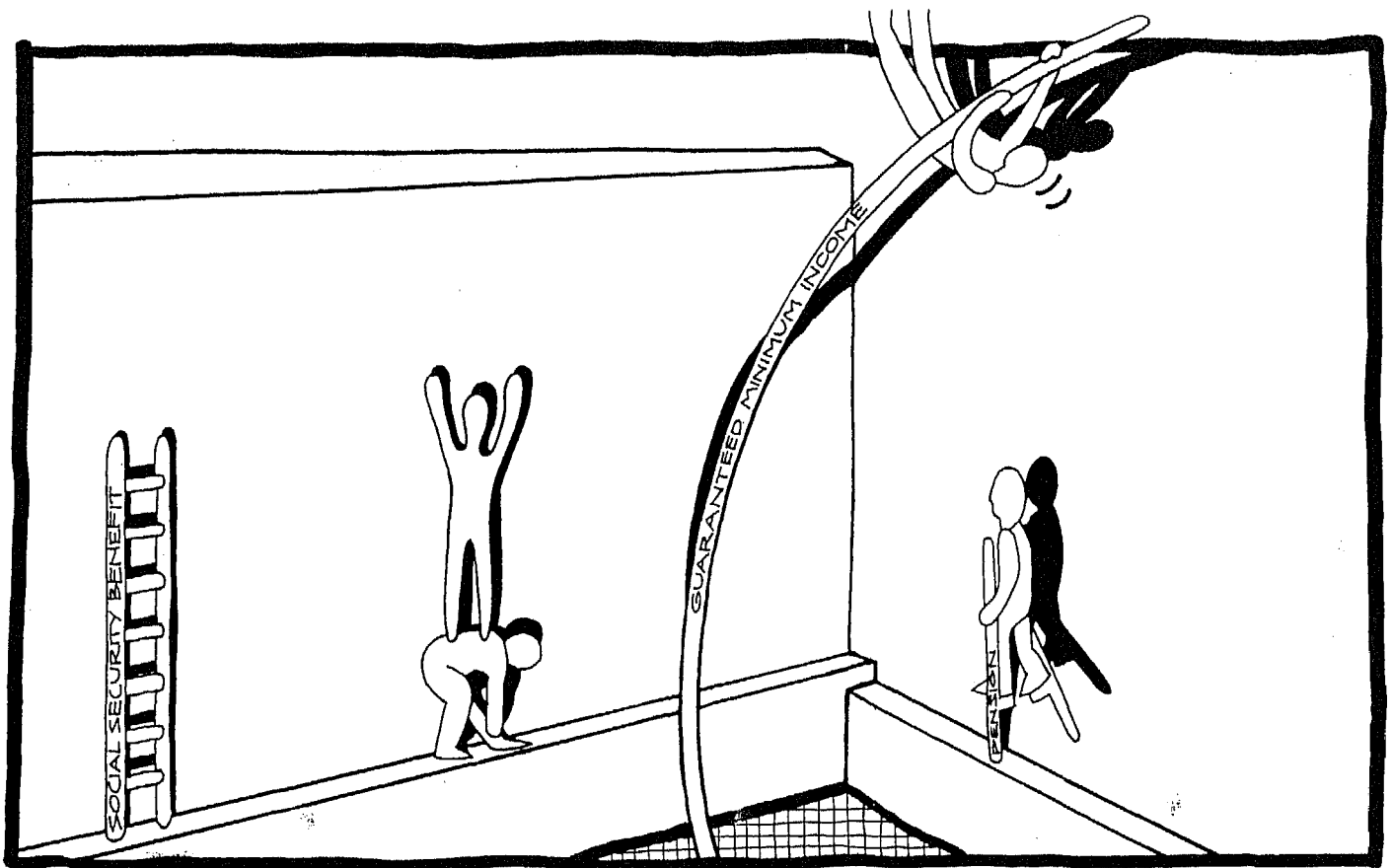
A GMI scheme will encourage and underwrite certain tendencies that are already at work in our society.

An enlarged sphere of personal freedom: Under a GMI scheme, people would be enabled to seek work for a variety of social or personal reasons (self-fulfilment, socialisation, challenge) in addition to the usual desire for a substantial income. But the whip that has driven them to work in the past — the prospect of destitution or the drawbacks of unemployment benefit — would cease to operate, and more people would have the opportunity to find fulfilment outside full-time paid employment. Those in employment would be less afraid of demanding humane and dignified working conditions — and would be able to swing their unions behind these issues more than in the past.

Workers would be encouraged to take sabbaticals, or simply drop out of paid employment for a time for a variety of reasons. Adult education and training courses would flourish, which would have implications for the level of social expenditure devoted to providing education and training resources.

Critics of GMI focus on this potential for an enhancement of personal freedom, and picture a future collapse of the work ethic. The Asprey Committee on taxation reform (1975) for example, offered the comment that a GMI scheme would have 'consequences for incentives to work and save which make it impossible to consider such a scheme seriously'. Opinions like this show a misunderstanding of the social motivation to work, and are more in tune with mid-Victorian workhouse attitudes than those appropriate for a society at a 'post-industrial' threshold where the distribution of paid work is coming to be seen as a real problem.

Economic independence for women: The payment of a GMI to individuals will provide a minimum level of financial independence that many women in a domestic situation have never experienced, encouraging greater equality between the sexes, and providing women who are



trapped in an unsatisfactory marriage a means of escape. This is why it is better to pay the income to individuals rather than to family units.

The only 'relationship' recognised by the GMI scheme would be that of mother and child (for the purposes of paying child benefit; and so investigations into the sexual life of single mothers on social security would be dispensed with.

Of course the GMI on its own is not going to emancipate women, but its basis favours this emancipation, rather than hindering it.

- **Promoting public sector services:** Financing a GMI scheme by a consumption tax carries substantial economic implications for private sector services that are presently charged for. The provisions of non-monetary public services, particularly in the field of health and education, would be materially advantaged. Thus the consumption tax financed GMI scheme would provide a substantial means of combating the drift of Australian society towards a state of 'private affluence and public squalor', and of halting the New Right drive towards privatisation.

- **Quality of work life and economic efficiency:** The GMI scheme would encourage a positive attitude to work by reducing the 'compulsion' to work. A positive attitude towards productivity enhancement and technological change would prevail with the costs of adjustment no longer borne directly by the displaced worker.

Unions would be encouraged by their members to take a broader approach to work than simply concentrating on remuneration,

and employers would be encouraged to pay more attention to the quality of jobs they offer. One of the principal causes of alienation and anomie in our society will be combated — and the products of that alienation, eg the violence and crime, bored kids with no future — would also potentially be curbed.

- **Social cohesiveness:** Above all, a GMI scheme will be an embodiment of a 'social contract', proof that a society can be built on a sense of co-operation rather than on competitive individualism. The GMI scheme would encourage a climate in which other forms of economic and social arrangements could be expected to take root and flourish; worker co-operatives, community co-operatives, and democratic citizen initiatives are a few examples.

One of the hidden or indirect benefits of a GMI scheme is that it would help to demystify the workings of the economy. The size of the overall national dividend would become well known through public debate, and this would be linked in the public mind to the overall size of consumption expenditure, ie purchase of goods and services produced, and through this to the level of production, investment and employment.

It would also encourage a more realistic view of disposable income on the part of trade unionists, and thereby generate support for current union campaigns to maintain levels of the 'social wage' rather than retreat to 'wages in the pocket' militancy.

- **Eliminating poverty traps:** Under existing social security and tax arrangements, pensioners and beneficiaries

who attempt to supplement their income with a few hours paid work face a significant disincentive. Means tests on the basic pension and on fringe benefits, and liability for tax as private income rises over around \$65 a week, combine to produce a poverty trap. Unless they are able to take on full-time work — clearly either not practical for many sole parents, for example — people reliant on pensions and benefits will be 'trapped' on below-poverty line incomes.

As Ian Manning points out, 'a GMI straightens out the tax schedule so that all people including pensioners face the same marginal tax rate'.

WHAT IS OUTLINED HERE IS only the germ of a possible GMI scheme. Much technical work needs to be done before a scheme could be adopted as policy by a political party and form the central plank in an election platform.

The prevailing political climate of pragmatism and realism is an unfavourable one for putting forward ideas of this kind, but I would argue that the rise of the New Right is changing the political agenda fast in Australia — and that pragmatism and realism will *not* be able to hold the line. Bold responses are called for, and a fully worked out GMI-consumption tax scheme, as the lynchpin of a boldly re-worked social welfare strategy, could be a winning political move — and an important step towards a more humane and responsible society. ●

► **John Mathews is currently working on a book on social democracy in Australia**